

**Draft Minutes
Timber Advisory Committee
May 1, 2014 Meeting**

The meeting was called to order by David J. Gau, Chairman, at 1:30 PM in Room 1013, State Board of Equalization (BOE), 160 Promenade Circle, Sacramento, California. Chairman David Gau recognized that all committee members were in attendance, a quorum was present, and the meeting was allowed to proceed.

**TIMBER ADVISORY
COMMITTEE (TAC) MEMBER**

David J. Gau, Chairman
George Gentry
Charles Leonhardt
Mari Wilson
Mike Mallory
Leslie Morgan
Susan Ranochak
Marty Olhiser
Lennart Lindstrand, Jr.

REPRESENTING

BOE
Board of Forestry Representative
Assessor, Plumas County
Assessor, Humboldt County
Assessor, Siskiyou County
Assessor, Shasta County
Assessor, Mendocino County
Large-Scale Timber Owners
Small-Scale Timber Owners

OTHERS IN ATTENDANCE

Ken Thompson
David Yeung
Peter Murphy
Mike Doyich
Art Tenneson
Ladeena Ford
Robert Tucker

REPRESENTING

BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
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BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, Legal Department
BOE. Legal Department

1. Oath of Office

Robert Tucker, C.E.A., from the Board of Equalization's Legal Department administered the Oath of Office to all of the committee members.

2. Approval of the November 7, 2013 Meeting Minutes

David Gau asked if everyone had reviewed the minutes from the previous meeting. With no errors or omissions heard, Chuck Leonhardt motioned to approve the minutes from the November 7th meeting as submitted. Mike Mallory seconded the motion, which passed without objection.

3. Harvest Value Discussion for Period of July 1, 2014 – December 31, 2014

Timber Tax Senior Forest Property Appraiser Peter Murphy began the discussion on 2H14 suggested timber harvest values with some introductory comments. The volume reported statewide for 2013 is up 25% compared to 2012, with a corresponding value increase of 17%. Due to the large number of catastrophic wildfires in 2012 and 2013, reporting from modified value schedules accounts for 280 MMBF which is \$27 million in value. The vast majority of this volume was from the Bagley Fire in Shasta County. In 2013, only 41 MMBF has been reported on the Rim Fire. The number of sales used to compute the suggested values for 2H14 is up 33% and the volume used is up 25%, compared to this same time last year. The warm and drier than normal winter has facilitated the availability of more current year sales in this analysis than is usual, so the data this spring is not influenced as much by the log index as in years past. The one extra week our appraisers had this session also aided our staff in obtaining more current year sales information.

Douglas-fir values are up significantly statewide due to higher prices being offered in the domestic market. There is also strong competition from high prices being offered in Southern Oregon, and there is still competition from the Chinese export market. All other species values are generally flat.

For the first time in over twenty years, two new sawmills will be opening in California. Lance Forest Products is opening a new small log mill on June 1st in Alturas (Modoc County) and Fruit Growers Supply is opening a new mill in Yreka (Siskiyou County). Both mills will be brand new facilities with new equipment on old existing lumber mill sites.

a) Tables G & S, Green and Salvage Timber Harvest Values

Green Timber - Peter gave a range of Immediate Harvest Values (IHV), by species, by TVA, for several of the more significant Timber Value Areas (TVA) in the state. This information was used in the analysis as a basis for the suggested green timber harvest values.

Salvage Timber - In the absence of significant salvage sales data, salvage values are generally based on the 75% of green rule. Currently, TVAs 5 and 7 both have modified salvage schedules in place and there is a lot of salvage sales data available. As we transition out of the modified schedules in second and third quarters of this year, sales of both regular and modified salvage were used as a basis to set salvage values for these two TVAs.

To compensate for the enormous amount of fire salvage volume expected to be offered this year from the Stanislaus National Forest as a result of the Rim Fire, all other forests in Region 5 are being given the option to reduce their 2014 projected target harvest volumes. Individual forests may be allowed to vary from this guideline, as needed, to keep local economies going.

After some discussion, and with no objections heard, a motion to approve both Tables G and S as submitted was made by Mike Mallory. Susan Ranochak seconded the motion. Without objection the motion passed unanimously.

b) Table 1, Miscellaneous Forest Products Harvest Values

The forest products contained in Table 1 Miscellaneous Harvest Values accounts for only a very small portion of total timber tax revenue. Table 1 forest products accounts for only 4½ % of the total revenue generated by the timber yield tax. And of that 4½ % total, the Small Sawlogs Miscellaneous category (SSM) produces the majority of the tax dollars reported under Table 1, which is 4% of the overall total. Stated differently, 90% of all the value reported under Table 1 is attributed to SSM. There are not many changes in Table 1 as proposed for the second half of 2014. The most noteworthy changes are as follows: Small Douglas-fir poles are up \$5/MBF and combined pine/fir poles are also up \$5/MBF. SSM is up \$15/MBF due to the significant increases in Douglas-fir and true fir prices, while Miscellaneous Conifers (CM) is down \$20.00/MBF. This is primarily due to older high value sales dropping out of the mix. Miscellaneous products contained in Table 1 are not indexed, so stronger consideration is given to current year sales. After discussion, a motion to approve Table 1 values as proposed was made by Chuck Leonhardt and was seconded by Len Lindstrand. Without objection, the motion carried.

4. Other Business

a) 2Q14, 3Q14 Modified Fire Schedule TVA 5, TVA 7 and TVA 8

TVA 5 - Staff is recommending the modified schedule be continued for second and third quarters of this year and then discontinued because the fires covered under those schedules will be cut out by the end of August or September. Those fires include the Ponderosa, Reading and Bagley.

TVA 7 - Staff is recommending the modified schedule be continued through second quarter and then discontinued because the 2012 Chips fire will be cut out by the end of June. There have not been any new sales from the Chips Fire since August of 2013. Value reductions for blue-stain in the pine were already reflected in those sales.

TVA 8 – Staff is recommending a modified schedule for both second and third quarters. However, the values are the same for both quarters. Currently, there is no sales information to support anything different for third quarter. However, based on supply and demand and past experience with salvaging burned timber from large scale catastrophic fires, the values likely should be lower for third quarter. The small private ownerships are expected to be cut out by June and the industrial timberlands will be cut out by late August or early September. Because burned timber is a perishable commodity the U.S. Forest Service is expediting their environmental review process. The Environmental Analysis (EA) has already been approved for roadside hazard trees and advertisements for the first round of sales totaling about 33 MMBF are scheduled to be mailed in the next day or so. The Forest Service plans to award these sales within 45 days and they would like to begin harvesting as soon as possible.

As far as the interior salvage goes, the Environmental Impact Statement (EIS), which satisfies the National Environmental Protection Act (NEPA), is still on track to be approved in August.

Normally the EIS process takes between two and five years. Advertising for interior salvage sales is scheduled to follow the final approval of the EIS. Few, if any, legal issues are expected to delay interior salvaging operations.

With so many more government sales likely to occur in an already saturated market, and with very limited marketing options due to so few processing facilities in proximity to the Rim Fire's remote location, it is reasonable to expect that values are likely to be significantly lower than currently suggested for third quarter. Due to the limited number of open market transactions, and as we enter the more advanced stages of Rim Fire salvaging, it is prudent to take into account what is likely to happen based on past experience. Mike Doyich, the Timber Tax Forester for the area, asked the committee if they were satisfied with the values being the same for both quarters, or if they were available and willing to meet again prior to third quarter reporting to review and consider new sales information. George Gentry said that the state is already in an unusual situation this year. Considering the extreme magnitude of the Rim Fire, and given the current drought conditions this early in the year, the state is extremely susceptible to additional catastrophic wildfires in the coming year. Given the likelihood for other catastrophic events to occur this summer and if new information becomes available, George strongly urged the committee to reconvene again sometime in August to consider revising third quarter Modified values in TVA 8 if justified.

After a lengthy discussion the committee agreed that it would be wise to revisit third quarter modified values in TVA 8 if a significant number of new sales occur. It was decided that since the assessors would already be assembled at an assessor's conference in Squaw Valley in August, that occasion would be a good time for the meeting. The meeting was scheduled for August 7th at 11:00 AM. Chuck Leonhardt volunteered to secure a meeting room and would be informing the committee and Timber Tax staff as details become available.

Chuck Leonhardt made a motion to approve the second and third quarter modified schedule values in TVAs 5, 7, and 8 as currently proposed, with the understanding that if more sales data becomes available in TVA 8 for the 3Q14 modified, a revised schedule could be considered by the committee to be recommended to the board for adoption. The motion was seconded by Len Lindstrand, which passed with all in favor.

b) Low Volume Per Acre Deduction

A request was made to Timber Tax staff at the fall 2013 TAC meeting by TAC member Len Lindstrand to review the current *Low Volume per Acre Deduction* of \$25/mbf. Peter Murphy said that a thorough review was conducted over the winter and presented the methodology used in the analysis. Two approaches were used, a sales approach and a cost approach. The sales approach considered actual timber sales with harvests less than 5mbf/acre as compared to sales of timber with harvests of over 5mbf/acre. The sales considered were from four years of data from 2010 to the present. In all, 2262 records were analyzed indicating a cost differential of \$28/mbf. In other words, the data shows timber owners receive, on average, \$28/mbf more for harvests that are over 5mbf/acre than for those that are under 5mbf/acre.

Peter then presented the results using the cost approach. Based on the same four years of data, the average stump-to-truck logging cost for green timber harvests under all logging systems turned out to be the same (\$164/mbf) for operations with harvests over 5 mbf/acre and under 5 mbf/acre. From actual experience it is known that costs increase as the volume per acre harvested decreases. The conclusion was there must be other factors that cannot be quantified in the analysis.

The fiscal impact of this deduction was then presented. The study showed that 11% of all 2013 reported operations qualified for this deduction. When considering the fiscal impact of raising the deduction from \$25 to \$30/mbf, estimates based on 2013 reporting indicated there would be a decrease of \$23,000 in tax revenue statewide. Any reduction in county revenue is probably not proportional to county size or volume harvested, but rather more likely to be a function of growing conditions, timber types and site quality. Counties such as Modoc and Lassen on the east side of the Sierra Nevada would be more likely to feel the effects of an increase in this deduction, should a change be implemented.

The last time this deduction was changed was in 1996 when the adjustment went from \$20 to \$25/mbf. Prior to that, in 1988 it was raised from \$10 to \$20/mbf. The results of the study did indicate that the cost differential on operations with less than 5 mbf per acre is slowly trending upward. The most recent one year sales data in fact indicates a differential of over \$30/mbf. Thus, staff's recommendation to the committee was to increase the *Low Volume per Acre Deduction* five dollars, from \$25 to \$30/mbf. Len Lindstrand recognized the amount of time and work that went into this analysis and he thanked Peter for all of his hard, diligent work. Len reflected that based on his work experience in northeastern California, this increase is warranted and justified. Len then motioned to accept staff's recommendation to raise the *Low Volume per Acre Deduction* five dollars, from \$25 to \$30/mbf. The motion was seconded by Marty Olhiser, and without objection the motion passed unanimously.

5. New Business

a) Tentative date for the next meeting

The date for the fall 2014 meeting was agreed to be Friday November 7th at 9:30 am at the same location and room.

6. Adjourn

David Gau thanked the committee for attending the meeting and staff for all of their efforts. The meeting was adjourned at 3:40 pm. At 3:41 pm the meeting was reconvened when it was realized that election of committee officers had inadvertently been omitted. Mike Mallory nominated Mari Wilson to remain serving as secretary for the committee. The motion was seconded by Marty Olhiser, and passed with all in favor. Chuck Leonhardt then motioned to re-elect David Gau as

Timber Advisory Committee

May 1, 2014

Draft Minutes

committee chairman. Mike Mallory seconded the motion and it passed with all in favor. The meeting was then adjourned for the second and final time at 3:43 pm.